Below is a table summarizing the accounting treatment and whether a credit to a liability account occurs when transferring accounts receivable, based on the scenarios discussed:

Scenario	Transfer Type	Liability Credited?	Journal Entry	Notes
Sale with No Recourse	Sale	No	**Debit**: Cash $95,000 **Debit**: Loss on Sale $5,000 **Credit**: Accounts Receivable $100,000	Receivables are derecognized; no liability unless other obligations exist.
Sale with Recourse	Sale	Yes	**Debit**: Cash $95,000 **Debit**: Loss on Sale $8,000 **Credit**: Accounts Receivable $100,000 **Credit**: Recourse Liability $3,000	Liability credited for estimated recourse obligation.
Secured Borrowing	Borrowing	Yes	**Debit**: Cash $95,000 **Credit**: Loan Payable $95,000	Receivables remain on balance sheet as collateral; liability for loan.

Notes:

- **Amounts**: The table assumes a $100,000 accounts receivable transfer with $95,000 cash received for simplicity. Actual amounts depend on the agreement.
- **Liability Credited**: Occurs in secured borrowing (Loan Payable) or sale with recourse (Recourse Liability).
- **Accounting Standards**: Based on U.S. GAAP (ASC 860) and IFRS 9 principles. Specific treatment may vary by standard or contract terms.

If you'd like me to adjust the table (e.g., add specific amounts, include more details, or format it differently), or if you want a visual chart based on this data (though numerical data for charting is limited here), let me know!

Notes on Assignment vs. Factoring of Accounts Receivable

Definitions

- **Assignment (Pledging)**: Using accounts receivable as collateral for a loan. The receivables remain on the company's balance sheet, and the transaction is treated as a **secured borrowing**.
- **Factoring**: Selling accounts receivable to a third party (factor) at a discount. If the transfer qualifies as a sale (e.g., under ASC 860), receivables are derecognized; otherwise, it's treated as a borrowing.

Key Characteristics

1. **Accounting Treatment**:
    - **Assignment**: Treated as a secured borrowing. Receivables stay on the balance sheet, and a liability (e.g., Loan Payable) is recorded.
        - **Journal Entry** (e.g., $100,000 receivables, $95,000 loan):
            - Debit: Cash $95,000
            - Credit: Loan Payable $95,000
            - Receivables remain as collateral.
    - **Factoring**: If a sale, receivables are removed from the balance sheet, and a gain/loss is recognized. If with recourse, a liability may be recorded.
        - **Journal Entry (Sale, No Recourse)**:
            - Debit: Cash $95,000
            - Debit: Loss on Sale $5,000
            - Credit: Accounts Receivable $100,000
        - **With Recourse** (add): Credit: Recourse Liability (e.g., $3,000).
2. **Customer Notification**:
    - **Assignment**: Customers typically pay the company directly; invoices are not stamped to redirect payments to the lender.
    - **Factoring**: In notification factoring, customers are often instructed to pay the factor directly, and invoices may be stamped with payment instructions.
3. **Recourse**:
    - **Assignment**: The lender has recourse to the company, as the loan must be repaid regardless of customer payment.

- **Factoring**: Can be with recourse (company liable if customers default) or without recourse (factor assumes risk), depending on the agreement.

Key Differences

Aspect	Assignment (Pledging)	Factoring
Nature	Secured borrowing (loan).	Sale of receivables (or borrowing if not a sale).
Balance Sheet	Receivables remain; liability recorded.	Receivables removed (if sale); may have liability if recourse.
Customer Payment	Paid to company; no notification to third party.	Often paid to factor; invoices may be stamped.
Recourse	Always recourse (loan repayment).	With or without recourse, per agreement.
Purpose	Provides collateral for financing.	Provides immediate cash via sale or borrowing.

Practical Example

- **Assignment**: A firm pledges $100,000 receivables for a $95,000 loan. Customers pay the firm, which repays the loan. Receivables stay on the balance sheet.
- **Factoring**: A firm sells $100,000 receivables for $95,000. Customers may be notified to pay the factor. Receivables are removed if treated as a sale.

Below is a consolidated note that combines the key points from the two Fidler Company questions (CMA 1288 P4 Q13 and Q14) and the Madison Corporation question (CMA 1290 P2 Q6) regarding accounts receivable and the allowance for credit losses under the Current Expected Credit Loss (CECL) model. The note focuses on the aging method, the handling of debit and credit balances, and the adjusting entries, addressing your specific concern about why the debit balance isn’t simply deducted.

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2. Question ID: CMA 1288 P4 Q13 (Topic: Accounts Receivable)

3. Question ID: CMA 1288 P4 Q14 (Topic: Accounts Receivable)

Accounts Receivable and Allowance for Credit Losses under CECL Model

Overview

- **CECL Model**: The Current Expected Credit Loss model requires estimating credit losses for accounts receivable based on historical data, current conditions, and reasonable forecasts. The allowance for credit losses is adjusted to reflect the expected lifetime credit losses using tools like the aging method.
- **Aging Method**: Categorizes accounts receivable by time outstanding (e.g., <60 days, 61–90 days) and applies estimated credit loss percentages to calculate the required allowance balance. The final allowance may incorporate qualitative factors, but in these examples, the aging schedule provides the target balance.
- **Adjusting Entry**: The allowance account is adjusted to the required credit balance by debiting Credit Loss Expense and crediting Allowance for Credit Losses for the difference between the current and required balances.

Fidler Company (CMA 1288 P4 Q13 and Q14)

Background

- **Context**: Fidler Company previously used 1% of credit sales to estimate credit loss expense but now uses the CECL model with an aging analysis.
- **Aging Schedule (November 30, fiscal year-end)**:
  - Under 60 days: $730,000 × 1% = $7,300
  - 61–90 days: $40,000 × 6% = $2,400
  - 91–120 days: $18,000 × 9% = $1,620
  - Over 120 days: $72,000 × 25% = $18,000
  - **Total required allowance**: $7,300 + $2,400 + $1,620 + $18,000 = **$29,320** (credit).
- **Current Allowance Balance**: $14,000 **debit balance** (unusual, as allowance typically has a credit balance, indicating a negative reserve, i.e., -$14,000).
- **Sales Data**: Net sales = $5,250,000; credit sales = $4,200,000 (not directly used in CECL aging method).

Key Calculations

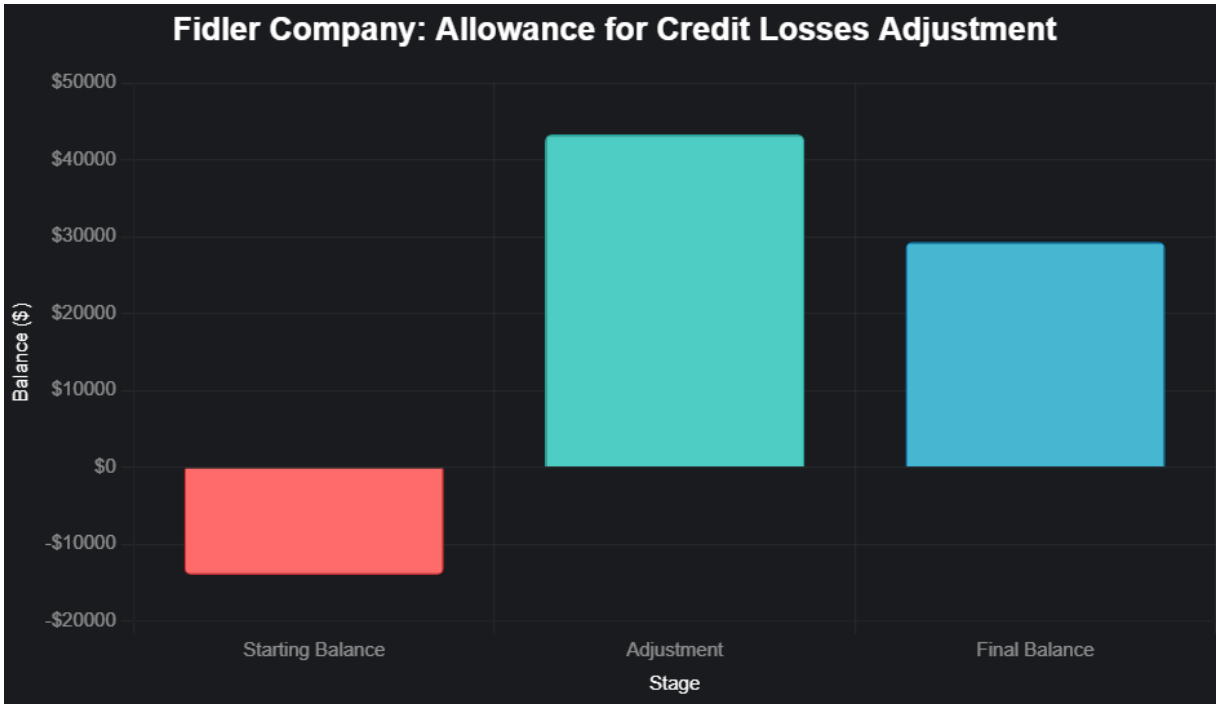
1. **Required Allowance**: The aging schedule yields a required credit balance of **$29,320**.
2. **Adjustment Needed**:
    - Current balance: $14,000 debit (i.e., -$14,000).
    - Required balance: $29,320 credit (i.e., +$29,320).
    - Total adjustment: Move from -$14,000 to +$29,320:
        - Eliminate debit balance: $14,000 (to reach $0).
        - Add required credit balance: $29,320.
        - **Total credit needed**: $14,000 + $29,320 = **$43,320**.
3. **Adjusting Entry** (Q13):
    - **Debit** Credit Loss Expense: $43,320
    - **Credit** Allowance for Credit Losses: $43,320
    - This adjusts the allowance from a $14,000 debit to a $29,320 credit balance.
4. **Final Allowance Balance** (Q14): After the adjustment, the allowance for credit losses has a **credit balance of $29,320**.

Why Not Deduct $14,000 from $29,320?

- **Misconception**: Subtracting the $14,000 debit balance from $29,320 (yielding $15,320) assumes the starting balance is zero or a credit balance, which is incorrect.
- **Correct Approach**: The debit balance of $14,000 means the allowance is at **-$14,000**. To reach a credit balance of $29,320, the adjustment must cover:
    - $14,000 to eliminate the debit balance (to $0).
    - $29,320 to reach the required credit balance.
    - **Total adjustment**: $43,320 (not $15,320).
- **Number Line Visualization**:
    - Start: -$14,000 (debit).
    - Move to $0: +$14,000.
    - Move to +$29,320: +$29,320.
    - Total credit: $43,320.

Visual Representation

The following chart illustrates the adjustment process for the allowance account:



- **Starting Balance**: -$14,000 (debit, negative bar).
- **Adjustment**: +$43,320 (credit to adjust the account).
- **Final Balance**: +$29,320 (credit, required balance).

Answer Summary

- **Q13 (Adjusting Entry)**: The adjusting entry is for **$43,320** (credit to allowance, debit to credit loss expense). **Correct Answer: C**.
- **Q14 (Final Balance)**: The final allowance balance is **$29,320** (credit). **Correct Answer: D**.